

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (Standardization of terms & conditions of ULIP Products and treatment of lapsed policies) REGULATIONS, 2010

In exercise of the powers conferred by clause (zd) of sub-section 114A of the Insurance Act, 1938 (4 of 1938) read with sections 14 and 26 of the Insurance Regulatory and Development Authority Act, 1999 (4 of 1999), the Authority in consultation with the Insurance Advisory Committee, hereby makes the following regulations

Short title and commencement

1. (1) These regulations may be called the **Insurance Regulatory and Development Authority (Standardization of terms & conditions of ULIP Products and treatment of lapsed policies) Regulations, 2010**
- (2) They shall come into force on the date of their publication in the Official Gazettee and shall apply to all contract of Linked Life Insurance affected thereafter. These regulations supercede the provisions of circular/ guidelines if any issued by the Authority and will be applicable to the existing products also.
- (3) These regulations apply to all life insurers, insurance agents, insurance intermediaries and policyholders.

Definitions:

2. (1) Unless the context otherwise requires,-
 - a) **“Act”** means the Insurance Act, 1938
 - b) **“Authority”** means the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999)
 - c) **“Grace Period”** : The additional period of time given / allowed by the insurer from the date of premium falling due to insured to make payment of premium without any interest or penalty. The risk will be covered without interruption in case payment is effected by the insured during the grace period.
 - d) **“Lapsation”**: discontinuation of premium payment by the policy holder during the period of operation of the policy, due to any reason other than the death of the policy holder. If policy has lapsed due to non-payment of premiums, the terms and conditions of the policy contract are rendered void, till the policy is revived.

- e) **"Date of payment"**: Date of payment in all cases shall be the date on which payment in cash is received by the insurance company or the date on which the cheque or postal order is posted to the insurer as set out in Section 64 VB (2) of the Insurance Act, 1938 provided the cheque is honored by the bank.
 - f) **"Revival of a policy"** : A lapsed policy has to be revived by payment of the accumulated premiums with interest as well as the cost of medical tests etc. as under the terms of the policy.
 - g) **"Surrender Value"** : The surrender value of the policy is the amount remaining in the fund account less applicable surrender charges which is refundable to the policyholder. However, the surrender charges shall not exceed the charges provided in regulation 6.a.
 - h) **"Surrender charge"** : means the maximum permissible charges as defined in regulation 6.a below. Surrender charges as applicable on lapsation date and on the fund value as on date of lapsation to be recovered at the time of pay out to the policyholder.
- (2) Words and expression used and not defined in these regulations but defined in the Insurance Act, 1938 (4 of 1938), or the Life Insurance Corporation Act, 1956 (31 of 1956) or the General Insurance Business (Nationalization) Act, 1972 (57 of 1972), or Insurance Regulatory and Development Authority Act, 1999 (42 of 1999) shall have the meanings respectively assigned to them in those Acts or the rules and regulations made there under, as the case may be.

Grace Period

3. The **Grace period for payment** of the premium will be as under for all types of linked products
- a. where the premium payment mode selected is monthly : **15days**
 - b. in all other cases : **30days**

Lapsation of the Policy

4. **Where policies lapse:** the policy holder is entitled to one of the following options:-
- a. to revive the policy;
 - b. to continue with the policy only to the extent of risk cover and
 - c. to continue with the policy with risk cover and as part of the Fund;
 - d. to withdraw completely from the Fund without any risk cover

5. In order to exercise the options available by a policy holder as mentioned in regulation 4 above, the insurance company shall take the following steps in all cases where a policy has lapsed.:
 - a. A notice shall be issued to such a policy holder asking him/her to exercise the said options within a period of 30 days of receipt of such notice.
 - b. In case no option is exercised within 30 days, the option at regulation 4 (c) above, i.e, to continue in the Fund with risk cover will be deemed to have been exercised and the risk charges and fund management charge will be recovered.
6. In case he does not opt to be in the fund, the fund value will be credited to “Lapsed Policy Fund” invested in a fixed income instrument earning at least the saving deposit interest rate. The interest on the fund so set aside will be apportioned to the Lapsed Policy fund only and will not be available to the shareholders.
7. In all cases, foreclosure has to be notified and policyholder must be given an opportunity of three months for revival of the policy.
8. **Surrender Charges :**
It is observed that Insurers apply different surrender charges while paying the surrender value to the insured. After due consideration of various practices, the Authority orders that the surrender charges (as percentage of fund value) shall not exceed the limits specified below:-

Year	Policy Period	
	Less than 10 years	More than 10 years
1st year	12.50%	15%
2nd year	10.00%	12.50%
3rd year	7.50%	10%
4 th year	5.00%	7.50%
5 th year	2.50%	5%
6 th year	NIL	2.50%
7 th year & onwards	NIL	NIL

However, insurers shall not impose surrender charges on Single Premium Policy and on Top up premiums.

9. Revival of a lapsed policy

Policy holder must be given an option within a period of 5 years from the date on which premium fell due to revive / reinstate the policy. However, Insurer will have the right to decline revival of the policy based on the grounds of moral hazard and/or medical conditions.

10. Treatment of Proceeds of the Lapsed Policies

Here the “proceeds of the lapsed policies” means

a) The fund value on the date of the lapsed reduced by the following charges

- i. Charges for risks to be covered if agreed to by the insured or in terms of provision of regulation 5.b
- ii. Charges for the fund maintenance after lapse of the policy provided the same has been agreed by the insured.

b) The fund value for the policyholder will be after

- iii. Adjustment of the fund as per NAV if the insured has agreed to be in the fund (OR)
- iv. Addition of Interest at saving deposit rate of interest (currently 3.50% p.a. calculated daily) in case the policyholder has not exercised his option to be in the fund.

The proceeds of the lapsed policies shall invariably be refunded to the policyholder after the expiry of the revival period or at any time after completion of 3 years term as and when demanded by the policyholder. In case there is no demand from the policyholder for refund, insurance company shall refund the amount on its own by means of a cheque / demand draft to be delivered to the insured/ nominee at his last known address. However, Insurer may deduct charges on account of pre-closure and lapsation which should, in any case, not exceed the charges stated in regulation 8 above.

11. Disclosure of Lapsed Policies/ Surrendered Policies

- i. The provision made for the same will be shown as a separate line item in the Balance Sheet
 - a. **Provision / Funds for Lapsed Policies**
 - b. **Provision / Funds for Surrendered Policies**
 - **As a part of the fund**
 - **As a part of the segregated fund**
- ii. The amount refunded to the policyholders during the financial year will be shown as a separate line item.
- iii. Disclosure giving the following will be made in the notes of the accounts – separately for surrendered and lapsed policies
 - a. number and percentage surrendered/ lapsed during the year
 - b. Number and percentage of policyholders opted for surrender out of lapsed policies
 - c. number and percentage of the policies revived during the year
 - d. number of the policyholders opted for mortality and fund
 - e. Amount charged on account on surrendered and lapsed policies.

12. Any breaches of the obligations cast on an insurer / insurers in terms of these regulations may enable the Authority to initiate action against each or all of them jointly or severally, under the Act and / or the Insurance Regulatory and Development Authority Act, 1999.

Removal of Difficulties

13. Where doubt or difficulty arises in giving effect to the provisions of any of these regulations, the same may be referred to the Authority, whose decision thereon shall be binding on the parties concerned.